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BUSINESS MONTH

Feature Departments

MARKETING

The Baby Boomers Are Richer and Older 24
Now a more mature public with deep pockets, the nation's best-educated consumers are a marketer's delight—and a tough sell.

- **And Now, a Word From One of Them** 27
- **New Wrinkles For a Special Group** 28

John Sculley Looks Ahead Again 30
To win tomorrow's markets, urges Apple's CEO, companies must shake up their hierarchical structures and customize their products.

- **A Grand Tour** 32

MANAGEMENT

The Art of Managing Creativity 34
Claiming a crying need for creative people, companies can't seem to manage them effectively.

INTERNATIONAL

Then Came Kawamura 40
A new breed of raider from the East, Dainippon's dynamic CEO is carving out a chemicals stronghold in the West.

ECONOMY

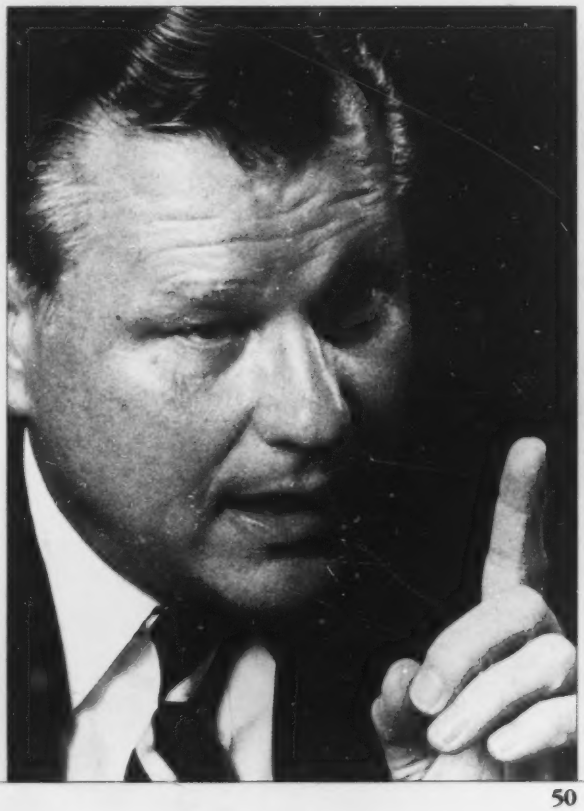
Part-Time Work Force 44
One quarter of the nation's employees come in only part-time. But it's a swell way for their employers to save billions.

COMPANIES

The Killer Bees 50
A day in the life of Sears' peripatetic trio of tireless, drop-in top managers.

MONEY & MARKETS

Unspeakable Debts, Unthinkable Answers 56
Bankers are coming to the grim conclusion that the developing nations' trillion-dollar debt is down the drain.



50

October 1987, Vol. 130, No. 4

The Business Month

ECONOMY
- *Greenspan makes a point* 15
- *Profits up*

WASHINGTON
- *Small step for passengers* 15
- *Care for the elderly*
- *Don Who strikes again*

INTERNATIONAL
- *Fallout from Korea's violence* 16

INDUSTRIES
- *Diverse strategies at Honda, Nissan* 17
- *Asea grabs its rival*

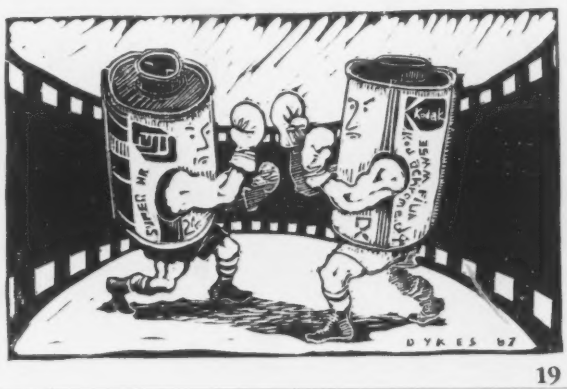
MONEY & MARKETS
- *Abboud to the rescue* 17
- *Midwest takes on NASD*

COMPANIES
- *DeLorean redux* 18
- *Merck's big deal*
- *Merger roundup*
- *Rochester U. asserts itself*

REAL ESTATE
- *The old used-plant trick* 19

MANAGEMENT
- *Where bigshots come from* 22
- *Business shuns technology*

ADVERTISING
- *More intimate, less obvious* 22



19

30

Letters 4

Speaking Out 8
Ford Chairman Donald E. Petersen on the trade deficit

Managers in The News 11
The Even Couple at Westinghouse

Personal Finance 75
On Wall Street: Forecaster Robert Prechter advises chasing the bull by playing the blues

COVER ILLUSTRATION BY THEO RUDNAK

Unspeakable Debts, Unthinkable Answers

Emerging nations owe a trillion dollars, and banks now realize that much of it will never be repaid.

by Edward Mervosh

When Chairman John Reed announced last May that Citicorp was increasing its loan loss reserves by a record $3 billion to offset potential losses on loans to developing countries, he sent the world financial system into dangerous and uncharted waters. Reed's announcement was a breathtaking public admission that the banks and the governments of the major industrial nations will never recoup the $1 trillion they are owed by developing countries. Citicorp's decision has left the governments and the banks with the unprecedented task of finding a way of bailing out of those staggering loans without drowning everybody.

The closest analogy to the developing-nation debt imbroglio is the reparations payments the Allies attempted to extract from Germany (there was only one Germany then) after World War I. It was asked to pay several hundred billion in today's dollars. Yet the economic and financial dislocations caused by the burden the reparations put on Germany were a major cause of the Great Depression of the 1930s.

The developing country debt is not only bigger; it involves the entire world *(table)*. "The debt is a threat to the banking system," says David Hale, chief economist for Kemper Financial Inc., "and all of the depressions in recent history have been triggered by a crisis in the financial system."

So it is not surprising that charting a way out of the debt swamp was foremost on the minds of the thousands of bankers and top government officials at last month's annual meeting of the World Bank and International Monetary Fund. Reed's action has in fact set in motion the creation of a new—albeit unofficial—plan for dealing with the five-year-old debt crisis.

The latest scheme, which could be labeled the Reed Plan, is divided into three parts:

- ☐ Further write-offs of loans.
- ☐ Selling the debt of developing countries in private markets.
- ☐ Providing more government aid and bank loans to these countries.

So far, the Reed Plan has been well received. The stock market barely batted an eye when Citibank forced a host of other banks to also add billions in loss loan reserves and in the process murder bank earnings in the second quarter. The new unofficial remedy to the debt crisis is widely regarded as being realistic because it acknowledges that the banks will take losses.

How realistic the Reed Plan really is will depend on how much more the banks may have to write off. That in turn depends on the capacity and willingness of the debtor countries to pay, which is impossible to assess. Says economist Steven Hess of First Interstate Bancorp.: "When the banks and the IMF were willing to lend more money to the developing countries, we had some certainty that they would make debt service payments. Now, with lending drying up, we have no idea how much they will pay back."

When Mexico set off the crisis back in 1982 by threatening to default, the IMF, the lending countries and the banks worked together to roll over

debt and help developing countries make interest payments. By 1985, however, that scheme proved unworkable as debt continued to pile up and the developing countries refused to accept the economic stringency demanded by the IMF for more loans.

In 1985, Treasury Secretary James Baker III proposed a new $30 billion plan that would provide still more aid to developing countries if they reformed their economies by opening markets, cleaning up corruption and tightening their belts. Most experts believe the Baker Plan is dead because the banks have been reluctant to lend still more money.

The worst possible outcome, of course, is that all developing countries will stop paying. No one expects that to happen, even though Brazil has stopped making interest payments, Peru and Ecuador are virtually in default and most countries long ago stopped paying back principal.

Although the debt crisis makes the interests of the developed and developing countries inextricably intertwined, their economic goals are at loggerheads. To service their debt, developing countries must sell their goods to the developed nations. But the developed world is growing very slowly, and many nations are gripped by rising protectionism.

Growth in the developed countries during this expansion has been slower than in past upturns because governments fear that faster growth will bring back inflation. This is bad news for most developing countries that depend on commodity exports to earn the money to pay their debt. Despite some comeback over the past year, weak growth in the developed countries has kept commodity prices far below the highs of the booming 1970s.

Economists estimate that the developed countries have to grow by at least 3 percent to enable the developing countries to make their interest payments. With the U.S. growing only 2.5 percent, Germany about 1 percent and Japan struggling to stay in the plus column, growth in the industrialized world is unlikely to meet that minimum level. As Robert Solomon, a senior fellow at the Brookings Institution, puts it: "If slow growth in the industrialized countries continues, we could face a world economic crisis."

THE TOP FIFTEEN DEBTOR COUNTRIES

(BILLIONS OF DOLLARS)

	1982	1986
Brazil	$85.7	$109.2
Mexico	91.1	99.9
Argentina	43.6	52.4
Venezuela	37.6	34.1
The Philippines	24.7	28.3
Nigeria	16.5	25.8
Chile	17.9	21.6
Yugoslavia	18.3	21.1
Morocco	11.3	15.9
Colombia	10.3	15.0
Peru	11.5	14.7
Ecuador	6.6	9.0
Ivory Coast	6.5	7.7
Uruguay	4.2	5.2
Bolivia	3.7	4.4

$1094,900,000,000

DEVELOPING COUNTRIES' TOTAL 1986 DEBT

Source: Institute for International Finance

Another major uncertainty is how much of the developing country debt the private markets will absorb, and at what price. When Citicorp bit the bullet last May, it announced that it would also be selling this debt in the private markets in an effort to salvage something. Right now the secondary market is tiny. Its growth will depend on how investors value this debt and at how deep a discount the banks will sell it.

When Citibank upped its reserves for covering developing-country bad debt to almost $4 billion on its nearly $15-billion, developing-country loan portfolio, it implicitly discounted those loans to 75 cents on the dollar. But the private markets have been valuing Brazilian debt at only 55 cents on the dollar, Mexico's at 53 cents and Argentina's at 47 cents. Since the Citibank valuation is way above the market, it may have to put even more money into loan loss reserves.

New lending to the developing countries by the World Bank and the IMF would greatly cheer investors and bankers alike. Lending by these institutions acts like a guarantee of a developing country's debt because it increases its ability to pay others.

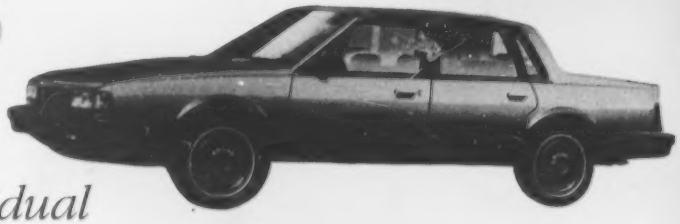
But the lending capacity of the IMF and the World Bank depends on how much the big industrialized countries, especially the U.S., are willing to give them. Secretary Baker wants to increase the capital base of the World Bank to provide it with the resources to guarantee new loans. But it is highly unlikely that Congress will vote the money. "Getting the last increase for the IMF proved very, very tough," says Brookings' Solomon.

Most of the big banks, especially the vulnerable ones like Bank of America and Manufacturers Hanover, would like more government aid to the developing countries. If the governments provide more, the banks might be willing to lend more. But that is unlikely.

That is why it is widely expected that the banks will have to add billions more to loan loss reserves. The only question is how much. What is most worrisome is that the debtors seem to be gaining more and more leverage in setting the terms of repayment. As John Maynard Keynes once observed: "If you owe your banker 1,000£, you don't sleep at night. But if you owe him 1 million£, he doesn't sleep at night." ■

ILLUSTRATION BY BOB SCOTT

Fleet Management: Update '88



Aerodynamic efficiency the new industry watchword; residual values, maintenance and insurance costs are key fleet concerns

It was "steady as she goes" during the 1987 model year, with little to rock the car makers' boats or trouble fleet administrators. Downsizing programs are about as complete as they will be; more powerful 4-cylinder engines are *almost* causing drivers to forget requesting sixes; overall quality of cars is up considerably; and even the fleet insurance situation has improved somewhat.

In fact, there are more carriers willing to insure fleets than in the past two years; insurance rates have begun to stabilize; and legislation has passed allowing more fleet self-insurance. Coupled with company risk management and safety programs, this all indicates a brighter insurance outlook for 1988.

Ford's teardrop shaped Taurus/Sable combination turned on consumers in record numbers and—as fleets tend to reflect the public's taste—they also made a big impact on fleet managers. Aerodynamic efficiency has become the new watchword in Detroit, and you can expect to see more Taurus-type styling. For example, GM's forthcoming "W" body front wheel drive intermediates.

As to technology, two safety features introduced in 1987—anti-lock braking systems and all-wheel drive—are expected to attract a greater amount of fleet dollars, especially in view of the insurance picture.

Clouds on the horizon: The UAW contract with Ford and GM expired September 14, and new negotiations will impact 1988 prices. One major leasing company, Peterson, Howell & Heather, predicts increases averaging about 4% and has advised fleet clients to have alternate vehicles selected "just in case."

Other areas of concern for fleet administrators are a soft used car/resale market (due to huge new car production, attractive incentives, more trade-ins from consumers for the market to absorb) and rising maintenance costs—especially on front-wheel drive cars. Gas prices aren't perceived as a problem.

While respectable fleet sales gains were reported for most car models, and light truck sales were still strong after 4.5+ million unit sales in 1986, medium and heavy-duty trucks sales continued to falter. There just aren't that many on the road today. PH&H says there were 400,000 units before deregulation, compared to 280,000 on the job now. And as companies improve maintenance techniques, they're keeping vehicles longer.

Carl Rehm, Director of Fleet Sales at GMC's Truck Division (which is no longer directly in the heavy truck business), sees changing operational patterns as part of the reason for slow heavy truck sales. "Suppliers are locating closer to users, so they don't need long-distance heavy haulers, and there's a trend to lighter loads, so you can substitute a 'city

Strong seller: GMC Sierra

tractor' for a heavy unit", says Rehm. However, he notes that the shift to mediums gave GMC "solid fleet gains," and the company is nearly back up to its 1980 level of 146,000 units from the depths of 1982's 99,000.

Meanwhile, look for all truck manufacturers to continue efficiency improvement programs, including more engine electronics, aerodynamic designs for fuel efficiency and on-board monitors to check both engine and driver performance. Another key factor will be increased foreign influence, as alliances are struck with U.S. truck makers.

In summary, fleet car and light truck sales are moving along without a hitch, while larger trucks are hanging tough for the long run and long-awaited replacement orders. While the latter are generally custom configured by task, leasing company guides offer full specs on light trucks, as well as cars. (*Information, Please*, page 74.) —J.F.C.

'88 Fleet Cars: Fine Tuned for Savings

The auto makers revealed few surprises, and for the most part letting stylists add exterior facelifts, and putting more emphasis on interior creature comforts and fine-tuning powertrains for maximum performance and economy.

All-new entries include the mid-sized Dodge Dynasty and—in spring '88—GM's new "W" bodies to challenge Ford's already established Taurus and Lincoln-Mercury's Sable.

For now, the fleet buyer has more than 150 models to consider, but we will realistically concentrate on 4-cylinder compact and mid-sized types. The thrifty 4-cylinder engines are key to fleet buying plans, since fuel still accounts for about 25% of a vehicle's operating cost.

As always, the fleet administrator's job is to fit vehicles to the assigned task and territory, please drivers, as well as his or her boss, buy low, control operating costs and sell high. Obviously, it's easier said than done, but sharper managers *are* combining common sense and crystal ball to meet these objectives.

This listing is intended as an overview of the industry's fleet offerings. For complete fleet vehicle information and specifications (including trucks), the major leasing companies offer free guidebooks. And now, the Class of '88 . . .

Chrysler

After riding to fleet success on its Aries/Reliant "K" cars, and maintaining momentum with the Caravan/Voyager T115 mini-vans, Chrysler is set to triple a new fleet segment for 1988 with the new mid-sized Dodge Dynasty. With a standard 4-cylinder engine and optional V6, the Dynasty is ready to take on such fleet stalwarts as the Pontiac 6000 and Ford Taurus, according to Hal Barton, Chrysler's General Manager of Fleet Operations.

Says Barton, "Fleet car sales are up 5%, and orders for 1988 models are way ahead of '87, so far. Our "P" cars, Sundance and Shadow, continue to gain strength, especially in the daily rental market, and mini-van sales are still surging, with our second plant running flat out to keep up. The "K" cars and Voyager/

Dodge Dynasty: new '88 entry

Caravan mini-vans are still our one-two punch, but the Dynasty is putting us into a whole new arena."

Chrysler's fleet offerings include the Plymouth Sundance and Dodge Shadow to compete with Ford's Tempo; the aforementioned Aires and Reliant compacts; the E body Plymouth Caravelle and Dodge 600 (actually stretched K cars); the all-new Dynasty and upscale LeBaron. In the fall of 1988, two familiar subcompacts will return: the Plymouth Horizon and Dodge Omni to go head-to-head against Ford's top-selling Escort.

Chrysler fleet sales account for approximately 20% of total production, but that should increase, due to the acquisition of AMC and its line. The Alliance has been dropped, and Chrysler will market the Jeep, Cherokee and Wagoneer models, plus the mid-sized front wheel drive Premier that will bow in the spring of '88.

The ex-AMC cars will have the advantage of Chrysler's distribution system, as well as its fleet salesforce. Notes Barton, "With the addition of AMC's cars and our own new introductions—the Dynasty and Horizon/Omni—we'll have a fleet line with no holes and look forward to a solid increase across the board for 1988."

Ford

"Quality is the best investment a fleet manager can make", says Ford's General Fleet, Leasing and Rental Manager B.G. Willis, as he notes that Ford's fleet sales now account for 26% of total production, up 18%. Taurus, with its teardrop aerodynamic shape, has been the company's fleet bellwether, as is its relative, the Sable, at Lincoln-Mercury. The popular mid-sized 6-cylinder car has a resale value "about $1,400 better than competitors' mid-sized models," Willis notes.

Ford's fleet lineup for '88 starts with the sub-compact Escort (again the world's best selling car) and moves on up to the 4-cylinder compact Tempo—redesigned and available with four-wheel drive—6-cylinder Taurus and full-sized V-8 Crown Victoria. The streamlined Aerostar wagon, now that more product is

Ford's Willis: Life cycle costing is a primary fleet car consideration

available, is expected to do well in commercial fleets.

Another measure of Ford's success is its performance at major leasing companies. According to Willis, five major lessors increased their purchases of Ford cars by 14% over a six-month period. "I think the smaller companies who were in it for the ITC will just fade away, as the large full-service firms get even stronger," Willis says. He sees "life cycle costing" as a prime consideration for fleet administrators. "The industry has finally learned to equip cars properly—you just don't move stripped cars anymore. Investing in the right options in the beginning is bound to pay dividends at resale time," he advises.

Ford's total car and truck fleet sales of 559,000 units fell somewhat short of projections, due to an 11% truck dip. But that was well below the 17% industry slump, and Willis expects improvement in '88. Acknowledging the power of fleet administrators, Ford has instituted a Fleet Advisory Panel.

As Willis puts it, "We're hanging everything on quality. That's the Ford fleet difference. We don't want applause from the panel; we want to listen and learn what's wrong and do our utmost to correct it." Judging by fleet car sales, Ford is doing quite a bit that's right!

Lincoln-Mercury

Like its cousin, the Ford Taurus, Mercury's Sable takes a good share of the credit for increasing fleet sales a healthy 10% for the 1987 model year. As a beaming John A. Rowley, Lincoln-Mercury's Major Leasing and Fleet Accounts Manager notes, this adds up to some 180,000 units or about 30% of new car production . . . well above the industry norm of 16%-to-18%.

Primary fleet offerings are the 4-cylinder compact Topaz, which has a total new design for 1988, and the hot-selling 6-cylinder Sable. The executive level car is the Grand Marquis, V-8 powered (yes, they're still around) and sporting minor cosmetic changes.

Lincoln-Mercury's Rowley: Option packages ensure higher car resale values

According to Rowley, the best news for fleet buyers is the Sable's outstanding residual value. "We're nearly $2,000 over our competitors at resale, and my advice for fleet managers with Sables is turn 'em now and get out of it almost paid for," he advises. "A smart fleet manager will see this opportunity and go with market conditions, instead of being restricted by guidelines. Flexibility is the key, and top management should realize this."

Rowley sees a key trend emerging: "Packaging" options, with fewer freestanding ones available. The Topaz LTS, for example, offers just three options, including air bags. "What it amounts to is a less complex fleet buy with no chance of misordering. And, of course, the option packages assure you of a much higher resi[illegible] value at trade-in time," says Rowley. As might be expected, Topaz and Sable are prominent on all major leasing company recommendations.

Star: Mercury's aerodynamic Sable

Buick

"Make no mistake, Buick is in the fleet business for the long haul," says J.E. Pirtle, Director of Fleet Sales; pointing to the all-new 1988 Regal as the fleet sales catalyst. "It's a move toward separate styling at GM divisions," he says, "and based on its successful preview at the NAFA Convention, we see it giving us the momentum we need to bring fleet sales to 15% of overall production. 1987 will be a building year."

Buick's top fleet seller is the mid-sized Century (relative of the Chevrolet Celebrity), with the subcompact Skyhawk, compact Skylark, LeSabre and "execu-

Projected Fixed and Operating Costs For Selected 1988 Models

Make	Model	Front Seat Head Room	Front Seat Leg Room	Luggage Capacity	Weight	Overall Length	Drive Unit	Cyl	Displace	Annual Costs For 20,000 Miles Operating	Fixed	Total
				(Cu. Ft.)	(Lbs.)				(Ltr.)			
Cad	Deville	38.1"	42.4"	16.1	3,201	196.5"	FWD	8	4.5	$1,710	$6,328	$8,038
Chev	Caprice CL	39.3	42.2	20.9	3,526	212.2	RWD	8	5.0	1,790	4,517	6,307
Olds	Ciera	38.6	42.1	15.8	2,733	190.3	FWD	6	3.8	1,600	4,610	6,210
Chev	Celebrity	38.8	42.1	16.2	2,799	188.3	FWD	6	2.8	1,480	4,325	5,805
Ford	Taurus L	38.3	41.7	17.0	2,867	188.4	FWD	6	3.0	1,530	4,222	5,752
Ford	Tempo GL	37.5	41.5	12.9	2,585	176.5	FWD	4	2.3	1,370	4,126	5,496
Plymouth	Reliant K	38.5	42.2	15.0	2,466	178.6	FWD	4	2.2	1,320	4,168	5,488
Dodge	Caravan	38.9	38.3	48.4	3,031	175.9	FWD	4	2.5	1,480	3,739	5,199
Chev	Cavalier	37.7	42.0	13.6	2,345	178.4	FWD	4	2.0	1,260	3,887	5,147
Ford	Escort GL	37.9	41.5	16.4	2,222	166.9	FWD	4	1.9	1,200	3,757	4,957

All four door cars similarly equipped including automatic transmission, power steering, power disc brakes, air conditioning, tinted glass, AM-FM (stereo when radio not available), body side molding, cruise control, and left-hand remote control mirror.
Costs include operating expenses (fuel, oil, maintenance and tires), fixed expenses (insurance, depreciation, financing, taxes and licensing) and are based on a 36 month/60,000 miles retention cycle.

Buick's Pirtle: Our 1988 Regal will be a big fleet winner

tive level" Park Avenue and Riviera models rounding out the line. Interestingly, the Skylark has been simplified for fleet use. "Drivers simply didn't accept certain things," says Pirtle, "so we've taken out the digital dash, installed bench instead of bucket seating and moved the shift lever to the steering column."

Following an emerging fleet trend, Buick will offer accessory "packages", instead of *à la carte*. Three basic packages may be added to, but not subtracted. As tradition has it, Buick's main appeal to fleet managers, according to Pirtle, is: "Prestige, on-time delivery, customer service and proven residual

Eye appealing Buick Skylark

value. Our dealers have become more fleet minded, and were building our future on how well our customers are handled."

Concludes Pirtle, "A good fleet car is a good retail car and vice versa. For fleet administrators looking at life cycle costing, they come out ahead with Buick, and then there are the intangibles of drivers taking better care of vehicles, having more pride in them and often buying them for personal use at disposal time. Those are Buick fleet advantages."

Chevrolet

Chevrolet reports a fleet car sales increase of nearly 10%, despite strong competition from Ford's and Lincoln-Mercury's mid-sized entries; the Taurus and Sable. The mid-sized Chevrolet Celebrity—perennial best selling fleet car—more than held its own, in fact, moving some 130,000 units. "Don't ask me how we did it, we just did", says George Frink, Chevrolet's Director of Fleet Sales. "Despite the Taurus, fleet administrators believed in the Celebrity's basic values: plenty of passenger room, big trunk, excellent fuel economy, classic styling and the price is right."

The 20% of total production that goes to fleets and daily rentals is divided among the mid-sized Celebrity plus—from top to bottom—the sub-compact

Chevrolet Corsica: swashbuckling

Cavalier, with a totally new look for '88; the compact Corsica and Beretta; and the tried and true full-sized Caprice.

The Monte Carlo has been cut from the lineup. As Frink notes, it's tough to size-categorize some Chevrolets: "The Cavalier is listed as a subcompact, but it's actually larger than Ford's compact Tempo, while the Corsica is nearly an intermediate." Be that as it may, Frink says, "all major leasing companies have bought the 1988 line."

With the popular Celebrity now getting a bit long in tooth, Frink is looking ahead to the first all-new "W" body design in the 1989 model year.

Oldsmobile

Until the spring of 1988, when Oldsmobile introduces its version of the aerodynamically styled "W" car, the Cutlass Supreme, fleet buyers will be content with a selection that features minor cosmetic changes. The Cutlass Supreme will have front wheel drive, a V-6 engine, and be slightly smaller and about 250 pounds lighter than its rear wheel drive predecessor. Rear wheel drive Cutlass Supremes, with the exception of the two-door Classic, will be dropped.

The 1988 fleet selection includes the subcompact 4-cylinder Firenza, with turbo option; compact 4-cylinder Cutlass Calais; best-selling mid-sized Cutlass

Olds leader: Cutlass Ciera

Ciera, with 4 or 6-cylinder engines; and full-sized Delta 88 Royale Brougham and 98 Regency.

Like most manufacturers, Oldsmobile is packaging options, which will add significantly to its traditional high resale value. In addition, two new engines options have been added for 1988: the "Quad 4" dual overhead cam 4-cylinder, which boasts performance on par with a V-6, while maintaining fuel economy; and the 3800 V-6 for those who want a high performance powerplant.

Pontiac

After a 17% fleet sales increase in 1986, Pontiac continued its hot streak in the General Motors lineup, rising to number two, next to Chevrolet. According to Jack Losch, Pontiac's Director of Fleet Sales, the compact 4-door, 4-cylinder Grand Am compact and mid-sized 6000, with 4 or 6-cylinder engine, are Pontiac's fleet leaders, accounting for 70% of sales. The 6000—comparable to the Chevrolet Celebrity—will be available in an all-wheel drive model in late 1988.

"We were actually slightly off in 1987", says Losch, "due mainly to the late entry of our new full-sized Bonneville, but we still managed to maintain our fleet market share of just under 10%. With the Bonneville in good supply and able to compete against such cars as the

Pontiac Grand Am: value added

Pontiac's Losch: Styling and resale value are the keys to our fleet success

LeSabre, we expect a significant increase this year."

Rounding out Pontiac's line are the compact 4-cylinder Sunbird and a new import for 1988, the LeMans.

"Styling and excellent resale value are the keys to our fleet success", says Losch, "and with fleet managers paying more attention to ROI than ever, these qualities put us in good shape for the future." An all-new mid-sized model, the aerodynamically styled "W" body with front-wheel drive, will be introduced in the spring of 1988.

Import Outlook

Imported cars and trucks, though still non-factors in the commercial fleet picture, are getting feisty, now that more product is available. In previous years, fleet supplies were on allocation.

U.S. plants—for example, Toyota's joint venture with GM in Fremont, California—have made for new-found fleet availability. And with improved distribution networks and delivery capability, the imports just might begin to make inroads; especially if threatened strikes curtail the supply of American models.

Mitsubishi

Mitsubishi moves into the 1988 model year with little line change. These solidly-built cars feature extensive lists of standard features. Fleet sales should center on the sub-compact Precis, compact Tredia and upscale Galant. All are powered by 4-cylinder engines, and the Tredia offers a turbo option.

Nissan

Thanks to more production at its Smyrna, Tennessee, plant, Nissan will increase its fleet car availability significantly for 1988 and offers new programs for daily rental and leasing companies, according to James Tavasci, National Fleet Sales Manager. The selection includes the Pulsar NX (the only model on allocation), its best-selling 4-door Sentra compact, Stanza mid-size and Maxima luxury sedan. All have 4-cylinder engines, with the exception of the Maxima with V-6. "We're priced competitively have excellent resale value, and a new J.D. Power survey of all Japanese manufacturers rates us number one in quality," says Tavasci, "and we see as much as a 15% fleet increase for 1988."

Subaru

Sensing the change in the fleet buying climate, Subaru of America is, in the first year of its fleet program, offering a $500 incentive on its XT, 3-door coupe and 4-door sedan and wagon. As with Nissan, more cars are available to fleets, due to a joint manufacturing venture with Isuzu in Lafayette, Indiana.

Subaru has had 4-wheel drive cars since 1969 and, according to Charles Reed, Fleet Sales Manager, this feature makes Subaru very attractive to fleets in the snow belt states. The company projects a modest first year sales figure of 15,000 units. "You just can't ignore fleet sales", says Reed, "and we're going to take advantage of a great opportunity!"

Toyota

The big styling changes happened in 1987, so the 1988s will have minor touchups, with the exception of the all-new Corolla. Toyota claims to be top runner in U.S. fleets among imports and in calendar '86 moved 107,000 cars and 33,000 trucks for an 8% increase. Plants in Fremont, California, and Georgetown, Kentucky, assembling Corolla FXs and Camrys, respectively, will provide plenty of product for fleets and rentals.

Says Don Esmond, Corporate Fleet & Truck Manager, "We've steadily increased our fleet penetration, and now we're getting on more selector lists and major leasing companies are recommending Toyota for the first time."

Toyota's fleet favorites include the sub-compact Tercel, available in five models; the compact Corolla FX; the mid-sized Camry; and the full-sized Cressida 4-door luxury sedan or wagon. The latter has a 6-cylinder engine, while the rest are 4-cylinders.

The list of standard equipment is formidable, and contributes to the Toyota's high resale value.

"We've strengthened our distribution network, can build to spec, and deliver on time," Esmond continues. "We're looking to continued fleet increases across the board—in cars, trucks and mini-vans."

Toyota Camry: fleet mover

Now that they've broken the ice with major leasing companies, it may signal a whole new era for imports. Time—and domestic car supply—will tell. —J.F.C.

Timing Is Everything

Replacement timing is one of the key elements in fleet cost control. Although the methods used to determine the best time to market used vehicles differs from company to company, the common goal of fleet managers is still maximum return on their company's investment. The name of the game is placing the vehicle in the right market at the right time and deciding when the car is more valuable out of service than in.

Depreciation, or the holding cost of a vehicle, represents approximately 52% of the total cost of operating a vehicle and stands as the single largest cost.

It follows that controlling depreciation is a major activity of effective fleet administration which can provide a substantial reduction in operating costs. The idea is to select vehicles that are most likely to enjoy low levels of depreciation over their service lives and use sound used car marketing methods to increase the return on investment.

The selling decision can be based on three basic factors: mileage, age, and market value.

Mileage—Using the mileage yardstick to determine when to replace a vehicle will put it into the retail used car market at

its value peak. By basing the decision on a specific mileage level, fleet managers can protect the car against the significant resale penalty for high mileage.

Bear in mind that a high mileage replacement point ignores the penalty of maintenance costs. The longer a car is in service, the more the car will cost to keep it operable. And with continuing fuel economy improvements of new cars, putting miles on a relatively inefficient car adds another cost penalty. And needless to say, the retail dislike for high mileage fleet cars is legendary.

Age—The yardstick of age protects the fleet manager from selling a fleet car before he has made full use of its low-maintenance mileage potential. Using age as a basis for timing replacements will fill up the odometer with a maximum number of sales/service dollar producing miles before age becomes a liability.

Market Value—The used car market is going to tell the fleet manager what the car is worth. By making the move when the car appears to be most attractive to retail buyers, the fleet manager can recapture the maximum amount of the acquisition cost.

The Church of Jesus Christ of Latter-Day Saints, has a company-owned fleet, which consists of several thousand vehi-

Luxury liner: Chrysler New Yorker

cles operated on a 3-year/55,000 mile replacement cycle. According to Don Benson, former manager of transportation administration, "We tried to structure our replacement policy on depreciation. We continuously analyzed the wholesale market in order to get the highest return and reinvest in new vehicles."

A totally different approach is used by Gerber Foods, which usually trades its vehicles every 12 months. Don Allen, corporate fleet manager for Gerber, says that fleet car mileage can range from 9,000 to 35,000 miles depending on territory. However, Allen points out that Gerber's 12-month replacement policy takes into account market conditions. "We incorporate a high degree of flexibility into our replacement criteria," he says, "and market conditions influence our decision to replace or hold cars."

Allen's theory on replacement cycling is not to place time or mileage restrictions on the car. He believes that if you want to get the most for your money, the determining factor should be based on what car you buy, how it is equipped, and how you train your drivers to take care of it. Says Allen, "I don't get too concerned with how much money we put into a car, initially. It's the net holding cost that is important. Investing a little extra in the cars pays off at trade-in time."

NAFA's Annual Used Car Marketing survey reveals that the majority of fleets keep their vehicles an average service life of 31.0 months and the cars are driven an average of 64,356 miles before replacement. The survey also noted that leased cars are kept for a shorter time and driven fewer miles than company-owned cars.

What's right for your company depends on your car criteria and, ultimately, the knowledge and "market feel" of your company fleet manager. Whether he or she decides to extend the replacement cycle or shorten it can dramatically improve the financial returns on your vehicles. In short, the fleet manager who has developed market sensitivity (call it seat-of-the pants sixth sense) and a good sense of replacement timing is a valuable corporate asset indeed. —L.W.

Fleet Management Overview

The most popular American corporate fleet vehicle is a company-provided, four-door intermediate-size car with front wheel drive powered by a six-cylinder engine and equipped with air conditioning, automatic transmission, power steering, power brakes, AM/FM radio, power brakes, tinted glass, cruise control and all-weather radial tires.

Its driver picked it from a selector list of vehicle choices offered by his company, and then drove the car about 20,000 miles in the course of a year. The company paid about $600 to insure that driving, a nearly 100% increase over 1984's annual fleet car insurance rate of $324, underwriting its risk with an umbrella insurance policy worth $1 million.

The car described above is from data in Runzheimer International's *1987-1988 Survey & Analysis of Business Car Policies and Costs*. Runzheimer's latest survey offers a unique, sometimes startling picture of the corporate car and truck fleet picture, presenting insights into both today's scene and emerging trends.

A third of company drivers surveyed in 1987 operated their vehicles under the requirements of a written corporate safety policy. Suprisingly, less than a third of the corporate vehicle fleets have a written policy covering mandatory seat belt use, although more firms than ever before are penalizing employees involved in traffic accidents or driving violations.

The 1987 company car cost more to repair, insure, operate and acquire.

Due to the growing corporate investment in vehicle fleets, companies are holding onto their cars and trucks longer, squeezing more life out of the vehicle before it's resold. A usage lifetime of 36 months and 60,000 miles has become the industry median for cars, with vans and light trucks serving their owners a shorter time but more miles: 40 months or 75,000 miles.

It follows that rising insurance and vehicle acquisition costs, together with the loss of some of the traditional tax advantages enjoyed by capital assets, are forcing corporations to manage their fleet assets much more carefully.

NAFA's Lefever: Car warranties are powerful fleet cost control tools

"There are about 2.7 million fleet cars and trucks in the U.S. today," says David Lefever, executive director of the National Association of Fleet Administrators (NAFA), the fleet trade organization based in South Iselin, N.J. "Fleets ac-

count for 24% of the cars and trucks built in American annually; so it's obvious that fleet usage patterns have a substantial impact on U.S. automakers.

"Right now, the new tax picture is affecting every sort of capital-intensive purchase made by corporations," Lefever says. "Before the tax law change, corporate vehicle fleets generally depreciated cars and trucks over a three-year schedule. That has increased to five years. Since the write-off factor isn't as powerful, and the general quality of U.S.-built vehicles has steadily improved, it's practical and cost-effective to keep fleet vehicles longer.

"Maintenance costs don't increase prohibitively. Detroit's extended warranties have had a lot to do with this. Fleet cars with 50,000-60,000 miles can still be under warranty. Those programs have become powerful tools to hold down maintenance expenses.

"Long-term maintenance programs such as Ford's Extended Service Plan (ESP) allow managers to buy maintenance plans at the time of purchase. Then cars can be operated for the length of the Plan's term for a fixed, known cost.

"Insurance costs, on the other hand, are a business expense that managers can't do very much about, although a few underwriters are responding favorably to some innovative programs and policies instituted by fleet managers.

"Tax reform and cost-effective extended warranties are both part of the reason why the overall size of U.S. fleets has remained steady," Lefever continues.

"One predicted result of the new tax laws was that corporations would overwhelmingly move away from ownership to leasing. The split is now about 50/50. The leasing industry likes to think that leasing will come to dominate, but the switch is not on."

Where Automotive Fleet Dollars Go

COST AS A PERCENT OF THE TOTAL

Cost Component	1978	1979	1980	1982	1984	1986	1987
Depreciation/Interest	40.7	44.7	46.7	49.4	45.6	53.4	52.6
Gasoline	34.7	29.1	33.7	32.1	30.3	19.6	20.3
Insurance	13.6	16.1	11.2	10.7	11.7	13.7	14.3
Maintenance	6.1	6.5	5.1	4.6	5.2	6.3	5.8
Tires	3.5	3.2	2.4	2.5	2.6	2.5	2.6
License	.6	.6	.6	.2	.2	.3	.3
Other	.8	.8	.3	.5	4.4	4.2	4.1

Source: Runzheimer International

Echoing concerns voiced in the current Runzheimer survey, Lefever sees an upward creep in fuel prices as another factor causing more costly fleet operation. "Fuel costs are going up, albeit rather slowly. And there's another five-to-ten cent Federal tax hike pending," he says.

The 1987 Runzheimer study found fleet managers' biggest worry was vehicle disposal costs, given an overall soft used car market, created in part by the generous new-car financing rates automakers are offering, in part by loss of the investment tax credit and longer depreciation periods.

As part of a trend to tighten control on corporate assets, most fleet managers reported establishment of stricter expense and mileage reporting techniques, along with a new look at personal use chargeback policies.

According to Runzheimer, fleets are shrinking job categories provided cars. There's even been a slight increase in the number of firms relying on employee-owned vehicles, with companies reimbursing employees for company-related use. Companies adopting this practice are, for the most part, smaller firms, and the vehicles are not used as often as those belonging to companies with large service and sale-oriented fleets.

Despite cuts in the number of job levels that get cars, the economy's movement toward service industries means many more service-related employees. Fewer kinds of employees get cars, but the number in each category is up.

"Certain types of employees simply *must* be out in the marketplace. Business doesn't walk in the front door, you've got to go find it." Lefever says. "Even when a real crunch is on, not many companies get rid of their cars. They're just too valuable.

"Fleets facilitate basic business; it's that simple!" —B.W.

Case History: Digital Equipment Corp.

However you imagine it, 11,000 vehicles is a lot of cars and trucks. And that's just what Digital Equipment Corp., the computer manufacturer, maintains in one of the largest U.S. corporate vehicle fleets. Fleet Manager Rick Catino oversees it all from company headquarters in Maynard, Massachusetts.

"98% of the fleet is leased," Catino says. We contract with two leasing companies: PH & H of Baltimore and Gelco. For the time being, we go with leasing because of a cost/benefit analysis that showed leasing fit in well with DEC's cash-flow picture.

Virtually all the vehicles are Ford cars and most of them are Taurus sedans.

The DEC Taurus sedans are "fleet-equipped," meaning standard amenities, air conditioning, and the other creature comforts of a slightly upscale car. Employees can order additional options at their own expense.

But one item usually considered an option, DEC management makes standard. "We ordered our Taurus' with an AM/FM/ cassette deck," Catino says. "The tape player is not a luxury item; DEC uses it to educate and inform its sales staff. Driving all day means a lot of en route dead time. So DEC puts technical and sales presentation material on tape and sends it on the road."

The DEC fleet puts considerable miles on its vehicles . . . over 251 million per year, according to Catino. That works out

to an average of 22,818 miles per vehicle. DEC resells and rotates cars every 36 months or 60,000 miles, whichever comes first.

Tracking so many vehicles surely requires the use of computers. Which computer system does Catino use?

"Guess," he laughs. "We use DEC's VMS VAX system, along with some software developed for us in-house. Our system still has a way to go. We load data in the office, but we do not transmit data in from the field operations. That's still largely paper-based.

"We have a lot of vehicle turnover from site to site throughout the U.S., and the computer comes in handy to track movements."

Movement is Catino's management strategy as well. "Right now, one out of every five cars built in America goes to fleets. And today, manufacturers have too much capacity, so it's a buyer's market. There are moving targets, opportunities that present themselves, then disappear. When they come along, we jump on them!"

If that sounds impetuous, it is—at least a little. To be productively impetuous, managers need support, from management. And Catino says he not only gets all he needs, but so do all his fleet managers.

"Consistency is important, as well. Whatever the reason for deciding one way or the other, a company has to decide what policy will be and stick with it. Once there is a policy for company vehicles, it has to be true for all the vehicles, not just certain classes or types. That consistency generates respect.

"For a fleet operation to be a success, it's vital for senior management to perceive the fleet manager for what he or she is: an assets manager. Fleet management is not purchasing. In purchasing, you buy something and you're finished with it. A fleet is a major asset. It's vital to know what to do with it. When to buy vehicles, when to dispose of them, which vehicles to choose, and so forth. Too many executives see fleets and fleet managers as a necessary evil, little more than a conduit through which money flows away from the company.

"What those executives don't see is that fleet management is a valuable tool; that there are numerous programs that can reduce costs. They don't understand the impact of the fleet on the bottom line. And that's sad, because it's a fact that companies with large fleets that take an active interest in managing them have lower costs."

Lately, Catino has been waging a war against rising insurance costs. "We've experienced some major increases, so we're doing more about safety and loss prevention. As part of that program, we created a special position completely dedicated to those goals.

"Doing so made sense, partly because of the sheer size of a company like DEC. A large company is more susceptible to litigation, especially from nuisance suits. Some of our service vehicles have the DEC logo on them and are targets if they get in an accident. Preventing accidents in the first place is a great way to avoid suits."

A former NAFA "Fleet Manager of the Year," Catino has been with DEC for nine years, seven longer than the 36-year-old manager planned to stay. "But the job here at DEC is an ongoing challenge. The opportunities for saving the company very serious money are endless.

"So I stayed because of the challenge. It's not a stagnant position; far from it. At the end of the day, I go home feeling good because I know I've made a contribution to the bottom line." —B.W.

DEC's Catino Fleet car leasing best fits our cash flow picture

Ford Taurus: bullish on fleets

Safety Programs Pay Dividends

Vehicle accidents are the number one cause of on-the-job fatalities and lost work time, according to statistics from the National Safety Council (NSC). In 1985, 11,600 people died in job-related accidents; 4,100 of them in motor vehicle accidents. A company with 1,000 employees will lose 217 work days a year due to motor vehicle injuries.

Statistics from the National Highway Traffic Safety Administration are equally grim. According to January 1987 figures, everyone can expect to be in a crash once every 16 years. From another point of view, one of each 16 employees in your company is likely be in a traffic accident during the next 12 months, either on or off the job, and one in seventy will be injured. Aside from direct costs for vehicular damage, the cost in human loss is enormous. Lost productivity and other outlays can impact a company's profits.

These figures, coupled with escalating insurance premiums and liability claims, necessitate the need for a company to seriously consider establishing a safety program. This responsibility usually rests with the fleet manager.

Artful Dodge: Caravan mini-van

In an automotive safety program, the goal is to reduce loss of life, limb, property, manpower, equipment, time and money. There is no magic formula, but several key ingredients always apply. An effective safety program should include:

- An personnel policy that will weed out potential problem drivers.
- Keeping detailed and accurate statistics as well as analyses of all accidents.
- Formation of a Safe Driving Committee and/or an Accident Review Board with representation from the fleet and insurance departments.
- Developing and implementing a continuing educational program that includes special films, newsletters and

driver training seminars.

- Instituting motivational and recognition programs.
- Providing an effective vehicle maintenance, and
- A policy statement on use of seat belts by all occupants in all company cars.

This last point is particularly important to Steve Schultz, fleet administrator, Merrell Dow Pharmaceuticals, Cincinnati, and Safety Committee Chairman for the National Association of Fleet Administrators, Inc. (NAFA): "At Merrell Dow, employees realize the significance of safety on the first day of employment. All drivers must go through *Commentary Drive*—an in-house training program that places emphasis on wearing safety belts. I am confident that there is a high level of compliance. While it's impossible to monitor every driver in every car, our accident reports indicate that most drivers believe in the saving power of seat belts. In serious accidents, no one's been injured."

Diane Steed, administrator of the National Safety Council, agrees with Schultz that a seat belt policy is an integral part of a safety program: "Even with safety belt use laws and company belt use policies, studies show as many as half the drivers in company vehicles either forget, or intentionally, do not wear their seat belts. These unprotected drivers put the company at risk. And the losses can be significant: loss of corporate skill and knowledge, loss of productivity and monetary loss."

Educational training programs are essential to a safety policy. Opportunities for fleet executives to set up continuing educational programs are endless. Two that should be included are periodic safety bulletins and regular reports on frequency and cost of accidents.

An incentive or motivation provision is another important aspect to a fleet safety program. It could include: awards (certificates, plaques, etc.), incentives (cash or merchandise), recognition (through articles and pictures in the company house organ, local newspapers and company affairs), and penalties (making the employee share repair costs after a chargeable accident; taking away personal use privileges or requiring the employee to pay individual insurance).

Simply dashing: Dodge Sundance

Phillip Morris in New York City is well-known for its incentive program. Fleet Manager Greg Tarring describes the company's "Drive To Win" Program: "Our drivers have their records evaluated on an annual basis, covering the period from January 1 to December 31. Those drivers without an accident are put into our computer list of safe drivers. They are then entitled to receive an award; the value of the prize varies depending on the number of consecutive years a driver has been accident-free."

Fleet favorite: Ford Tempo

Tarring believes this incentive program has been a strong motivator for his drivers. Since 1980, when "Drive to Win" was initiated, there has been a 10% decrease in the number of driver accidents. "We continually remind them of the program through notices in the company newsletter and through quarterly mailings. I believe the program has helped them become more cognizant of their driving habits."

And that is the crux of an effective safety program. If you lend full support to your fleet manager's safety package, there is little doubt that insurance and operating costs can be reduced and injuries prevented. If every company employee, at all levels, understands and actively participates in a safety program, the fleet manager's salary can be recouped many times over. And, most important, lives will be saved and tragedies prevented. The next step? Just ask your fleet administrator for a full safety report and details of the company safety program. There *is* one, isn't there? —L.M.

Information, Please

1986 Automotive Guide Books: Facts, figures and fleet recommendations, available from:

- ARI, Inc., 207 Union Street, Natick, MA 01760 (car data on floppy disc).
- Avis Car Leasing, PO Box 117, Carle Place, NY 11514
- Gelco Fleet & Management Services, 3 Gelco Dr., Eden Prairie, MN 55344
- Peterson, Howell & Heather, PO Box 2174, Baltimore, MD 21203
- McCullagh Leasing, 30803 Little Mack Ave., Roseville, MI 48066
- U.S. Fleet Leasing, Inc. (Licensee of Hertz System), PO Box 5933, San Mateo, CA 94403
- Wheels, Inc., 6200 N. Western Ave., Chicago, IL 60659

Runzheimer Reports 555 Skokie Blvd., Northbrook, IL 60062.

- *Runzheimer Reports on Transportation*—Monthly newsletter on car/fleet management ($195/yr).
- *Runzheimer Reports on Fleet Maintenance & Safety*—Monthly newsletter for fleet managers ($156/yr).
- *Runzheimer on Cars and Living Cost*—Informative and *free* quarterly.
- *1987/88 Survey and Analysis of Business Car Policies and Costs*—($296).
- *Runzheimer Reports on Travel Management*—Steps to control rising travel costs, monthly newsletter, ($245/yr).

NAFA Fleet Manager's Manual Everything one needs to know about running a corporate fleet, and more; includes sections on acquisition, expense control, maintenance and safety. $85 per copy, from: National Association of Fleet Administrators, 120 Wood Avenue South, Iselin, NJ 08830, (201) 494-8100.

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INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(8/31/87) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$33.25/share	$10,384	$13,407
percent change		+3.8%	+34.1%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$120.25	$ 9,806	$ 8,593
ACCUMULATED INCOME		$ 80	$ 840
TOTAL		$ 9,886	$ 9,433
percent change		-1.1%	-5.7%
Money Market Fund	6.0%*	$10,051*	$10,600*
percent change		+.5%*	+6.0%*
Gold (Krugerrands)	$454.60/oz.	$ 9,726	$11,650
percent change		-2.7%	+16.5%
HOUSE PRICES	Recent	Month Earlier	Year Earlier
Existing House	$115,300	$117,200	$108,500
percent change		-1.6%	+6.3%
New House	$141,200	$134,600	$117,900
percent change		+4.9%	+19.8%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes, Inc.; Federal Home Loan Bank Board. *Estimate.

"The strongest analogy [with the present] is to the 1920s," Prechter says. "In 1929, as the bull market was rushing into its final month, more stocks were falling in price than rising, even though the Dow was still going up. There was no widespread speculation. Rather, the speculation was concentrated in a handful of stocks that were going up a lot."

The good news, at least to Elliott Wavers, is that the correction—whenever it sets in—will clear the way for a huge move into the mid-3000s by late 1988 or so. The bad news is that the Great 1980s Bull Market will then come to an end—perhaps a crash landing, says Prechter.

How bad could it be? Because the 1980s bull market has far outgained the 1920s rise, which led to a three-year bear market, Prechter thinks the coming bear market could last as long as six years—perhaps through 1994. And he believes the Dow Jones average could plunge to a minimum of 1000 and possibly as low as 400, since in the bellwether fourth Elliott wave in the 1932–8? bull market it bottomed around 800. "It's something worth worrying about," he adds rather matter-of-factly.

Prechter's advice? "Grab the bull market by the horns and make the most of it while it's still here," he says. Near term, during the correction he expects to precede the climactic bull market surge, Prechter counsels investors to "orient yourself toward keeping what you have rather than fighting the downtrend." But, he adds, if you miss the next buying opportunity in equities, you may have to wait until 1994 for another to come along.

Right now Prechter, who is strictly a market caller, not a stock picker, is convinced that the small investor's best bet for the bull's final run is buying a mutual fund, either a stock index fund or any fund loaded with blue-chip stocks. Says he: "The bluer the chips, the better." —LEAH NATHANS